

Fiscal Management Division
Statewide Fiscal Services Dept.
Expenditure Audit Section
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Post-Payment Audit of The University of Texas System



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EXECUTIVE SUMMARY

Audit scope

We audited a sample of The University of Texas System (System) payroll, purchase and travel transactions that processed through the Uniform Statewide Accounting System (USAS) during the period beginning March 1, 2015, through Feb. 29, 2016, to determine compliance with applicable state laws.

The System receives appendices with the full report that includes a list of the identified errors. Copies of the appendices may be requested through a [Public Information Act](#) inquiry.

The audit provides a reasonable basis for the findings set forth in this report. The System should implement the recommendations listed in the Detailed Findings of this report. It is the System's responsibility to seek refunds for all overpayments unless it determines it is not cost effective to do so. If necessary, the Comptroller's office may take the actions set forth in Texas Government Code, Section 403.071(h), to ensure that the System's documents comply in the future. The System must ensure that the findings discussed in this report are resolved.

Texas law requires the Texas Comptroller of Public Accounts (Comptroller's office) to audit claims submitted for payment through the Comptroller's office. All payment transactions are subject to audit regardless of amount or materiality.

Payroll transactions and payroll deductions

Payroll transactions were audited for compliance with the General Appropriations Act (GAA), the [Texas Payroll/Personnel Resource](#) and other pertinent statutes. The System was also audited for compliance with Human Resource Information System (HRIS) reporting requirements.

The audit identified:

- Incorrect State Service Date/longevity payment amount.
- Missing prior state service verification.

Purchase transactions

Purchase transactions were audited for compliance with the GAA, [eXpendit](#), the [State of Texas Procurement Manual](#) and other pertinent statutes.

The audit identified:

- Payment exceeded authorized dollar amount.
- Reimbursement of unallowable expenses.

Procurement card transactions

Payment card transactions were audited for compliance with the GAA, [eXpendit](#), the [State of Texas Procurement Manual](#) and other pertinent statutes.

The audit identified:

- Vendor hold status not verified.

Travel transactions

Travel transactions were audited for compliance with the GAA, [Texttravel](#) and other pertinent statutes.

- No issues were identified.

Prompt payment and payment scheduling

We audited the System's compliance with the prompt payment law and scheduling rules.

- No issues were identified.

Security

The audit included a security review to identify any of the System's employees with security in USAS, the Texas Identification Number System (TINS) or on the voucher signature cards who were no longer employed or whose security had been revoked. Upon termination or revocation, certain deadlines must be observed so that security can be revoked in a timely manner.

- No issues were identified.

Internal control structure

The System's internal control structure was reviewed. The review was limited to obtaining an understanding of the System's controls sufficient to plan the audit and did not include tests of control policies and procedures.

The audit identified:

- Three employees had the ability to process expenditures without oversight.

Prior post-payment audit and current audit recurring findings

A prior post-payment audit of the System's payroll, purchase and travel transactions was concluded on April 30, 2012.

During the current audit, the following recurring findings were identified:

- Incorrect longevity payments.
- Missing prior state service documentation.

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DETAILED FINDINGS — PAYROLL

Incorrect State Effective Service Date/Longevity Payment

Finding

We identified state effective service dates that were recorded incorrectly in the System's payroll for 11 employees in our sample. This resulted in an underpayment amount of \$280 in longevity pay for three of these employees.

The System stated there was a miscalculation embedded in their payroll system which caused the miscalculation of longevity pay. In these instances, the service end day of employment (varies per state work history) was not considered in longevity calculations, which accounted for most of the discrepancies identified.

The proper calculation of the effective state service date is derived by subtracting the total days of lifetime service credit from the most recent employment date. That date is used to determine when the longevity pay is increased.

See [Texas Payroll/Personnel Resource](#) – Longevity Pay.

We provided the System with the schedule and calculations of the incorrect longevity payment amounts during fieldwork. These are not included on this report due to confidentiality issues.

When an agency hires an employee, the agency must research whether the employee has prior state service and confirm the amount of lifetime service credit, and properly record it prior to processing longevity payments. If the agency fails to do so, the lifetime service credit for longevity payments will be based on the employment date at the new agency and the eligible employee may be underpaid longevity pay. See the [Texas Payroll/Personnel Resource](#).

Recommendation/Requirement

The System must correct the calculation formula in its payroll system to include the correct effective service date.

The System must ensure that prior state service is properly recalculated and documented for all current and former employees since the current payroll system was implemented. The System must compensate all the employees who were underpaid longevity pay.

In addition, the System must ensure that its internal operating procedures include quality control measures that will detect any underpayments of compensation to a state employee.

System Response

Agreed. During the course of investigation, the audit uncovered that the last day of employment for each end date (varies per state work history) was not being accounted for in the manual calculation attempt and accounted for most of the variances.

System Administration Office of Human Resources is working with the Office of System Information Services to update the HR data center code in calculating longevity payment including the state effective service date in addition to the current code of months of service.

The Office of Human Resources will also correct any instances of underpayment of longevity payments ensuring they align with any adjusted service date and compensate affected employees, accordingly.

System Administration anticipates changes to be implemented on or before the end of the current fiscal year, Aug. 31, 2017.

Missing Prior State Service Verification

Finding

Prior state service verification records were missing for three employees in our payroll sample. The employees listed their prior state service time on their job application; however, the System did not have documentation to show state service verification was conducted at the time the employees were hired.

During the audit, the System conducted the prior state service verification for the three employees in our sample and provided the auditor with the required documentation to validate the longevity pay amounts for these employees.

When an agency hires an employee, the agency must research if the employee has prior state service. If there is prior state employment, the agency must:

- Confirm the amount of lifetime service credit.
- Compute the correct amount of longevity pay entitlement.

If the agency fails to do this, the lifetime service credit for longevity will be based on the employment date at the new agency and the eligible employee may be underpaid longevity pay.

See [Texas Payroll/Personnel Resource](#) – Required Documentation.

Recommendation/Requirement

We recommend the System continue to research and verify prior state service time for its employees. In addition, the System should ensure that all prior state service verifications are properly documented, accurate and maintained in the personnel files.

System Response

Agreed. UT System Administration Office of Human Resources (OHR) communicates with all new benefits eligible employees; inquires and verifies state services and promptly documents the results in our internal system. The designated OHR representative consistently initiates follow-up communication with the new employee to ensure acceptable documentation(s) is received and retained in the employee's record. Resolutions are immediately implemented if/when an error is identified.

OHR will commit to implementing a consistent three-attempt follow up to state service verification requests. Documentation will be maintained in the employee file.

System Administration anticipates changes to be implemented on or before the end of the current fiscal year, Aug. 31, 2017.

DETAILED FINDINGS — PURCHASE

Payment Exceeded Authorized Dollar Amount

Finding

We identified one transaction in our sample where the System paid more than the authorized dollar amount on the purchase order (PO) for additional services.

The System failed to amend the original PO to increase the dollar amount and include additional services the vendor provided.

The System's internal procedures include a purchasing review process to ensure department employees follow its purchasing procedures and the state of Texas purchasing regulations. In this instance, the System's purchasing department notified the end user of the non-compliant purchase and their responsibility to comply with purchasing rules and procedures.

The non-compliance notification was acknowledged and signed by the end user prior to the System processing the payment to the vendor.

Based on the documentation reviewed, we believe the System has internal controls to help ensure its employees follow state of Texas purchasing regulations.

The PO is a contract between the System and the vendor. The authorized dollar amount on this contract may not exceed without properly documenting an amendment to the original contract.

Refer to the [State of Texas Procurement Manual](#).

Recommendation/Requirement

We recommend the System continue to educate its employees about state of Texas purchasing rules, and to properly document PO amendments, when necessary.

Refer to the [State of Texas Contract Guide Management Guide](#) and the [State of Texas Procurement Manual](#).

System Response

Agreed. Contracts and Procurement has developed training materials and written procedures for end users. Section 1.2, Authority to Obligate, in Section D addresses handling of noncompliant purchases. The training material is complete and posted on the Contracts and Procurement website. Regularly scheduled classes are expected to begin in June 2017.

Reimbursement of Unallowable Expenses

Finding

The System reimbursed a contracted vendor for travel expenses that exceeded the allowable travel amount and/or were prohibited by the contract specifications.

The contract reviewed included specifications on allowable expenses and stated, “contractor will not be reimbursed by the University for expenses that are prohibited or that exceed the allowable amounts set forth in the current Travel Reimbursement Rates.”

The System processed payments to the vendor for various travelers without verifying that expenses submitted were allowable, or that amounts claimed for reimbursement were within the travel reimbursement rates. The travelers used non-contracted airlines and were submitting meal receipts that included gratuities. The auditors were unable to determine the unallowable amounts paid due to the vendor’s method of combining and reporting all travel expenses.

The System confirmed travel supporting documentation is reviewed when making contract payments but agreed those items on the document reviewed were missed.

State agencies must ensure that all travel reimbursements are examined prior to payment to ensure compliance with all applicable regulations and limitations. See [Texttravel](#).

Recommendation/Requirement

The System must review documentation to ensure expenses are allowable under the contract terms and in compliance with the state travel rules and regulations prior to processing payments.

System Response

Agreed. Contracts and Procurement is in the final stages of developing contract monitoring procedures which will be published and accompanied by Contract Manager training. Section 7.4, Invoices and Payments, of the Contract Management Handbook addresses processing invoices and payments. The training material is complete and posted on the Contracts and Procurement website. Regularly scheduled classes are expected to begin in June 2017.

Vendor Hold Status Verification Not Verified

Finding

We identified one payment card transaction in our sample where the System failed to verify the vendor's warrant hold status prior to processing a purchase with the vendor. The total amount on this transaction was \$647.50.

The System's purchasing policy requires card holders to verify the warrant hold status for vendors prior to making purchases. It is the System's responsibility to ensure state funds are not used indirectly to pay vendors that are on warrant hold. The System stated this finding was due to an oversight.

State agencies are required to verify a vendor's warrant hold status prior to initiating purchases over \$500. Emergency payments are not subject to this requirement.

See [Texas Administrative Code, Chapter 34, Section 5.57\(g\)\(6\)](#) and [Verifying Vendor Hold Status \(FPP K.012\)](#).

Recommendation/Requirement

The System must follow procurement procedures to ensure vendor warrant hold status is verified prior to initiating purchases.

System Response

Agreed. This transaction occurred on one of our eight One Cards. Effective with April 2017 charges, we will require the One Card holders to follow the same procedure that we have in place for our Procards. We provided One Card holders with a form that will require the holder to document that he/she checked if the vendor was on hold (on purchases > \$500). The central Accounting Services group will check that the form was completed and included with the scanned monthly voucher.

DETAILED FINDINGS — INTERNAL CONTROL STRUCTURE

Control Weakness Over Expenditure Processing

Finding

As part of our planning process for the post-payment audit, we reviewed the expenditure process and certain limitations that the System placed on its accounting staff's ability to process expenditures. We reviewed the System's security access in USAS, TINS and its voucher signature cards that were in effect on June 27, 2016. We did not review or test any internal or compensating controls that the System may have relating to USAS or TINS security or internal transaction approvals.

The review identified three employees with the ability to adjust payment instructions in TINS and approve vouchers. The results of this review showed there were no records processed without oversight during the audit period. The System stated it has internal controls in place and makes every effort not to process documents without oversight.

Recommendation/Requirement

The System must limit the access of users who can enter and change a voucher or release and approve a batch in USAS to view only access in TINS. An individual should not be able to create a vendor or change a vendor profile, create a payment and approve the payment.

System Response

Agreed. Access to TINS has been limited to Basic Inquiry for the three employees identified during the audit. Access levels are reviewed during initial access requests for new users, and during the Semi-Annual Verification of Statewide Financial Systems Security Access levels. The duties of vendor setup and voucher approval continue to be segregated in our systems to further mitigate risks.

DETAILED FINDINGS — TRANSACTION CODE REPORT

Incorrect Processing of Reimbursements

Finding

A transaction report was generated outside of our sample to identify payments processed in USAS during the audit period. This report identified 55 transactions where the System used the incorrect transaction code (T-code) pair and/or TIN to process reimbursement payments.

The System made these payments to the vendors originally using local funds (non-Treasury funds), then requested reimbursements in USAS to its local fund account by using state funds. The System processed the reimbursements in USAS using their own TIN instead of using the vendor's TIN as the original payments were processed.

The System stated its accounting staff is in the process of changing its procedures to ensure the reimbursement payments are processed in accordance with [Processing Third-Party Transactions in USAS for Payment/Travel Cards, Direct Bill Payments and Reimbursements \(FPP A.043\)](#).

The information agencies enter in USAS captures vendor-level details and is needed to ensure payments are posted correctly in the system. In addition, payment and vendor detail information are used for public information requests and other financial reporting.

See FPP A.043 for additional information.

Recommendation/Requirement

We recommend the System continue its plans to revise its procedures for processing reimbursements in USAS.

The System must ensure payments from the State Treasury to the local fund accounts include the proper information in USAS as described by FPP A.043.

System Response

Agreed. Forty-six of the 55 of the transactions identified were for reimbursement requests that were prepared manually. The vendor details were not readily available from our automated interface, and required additional data gathering. Going forward the vendor will be correctly coded for these types of transactions, and we will continue to look at streamlining this manual process to ensure accuracy.

Nine of the 55 transactions identified are related to petty cash reimbursement and debt service, for which the use of our own vendor TIN is appropriate.

Comptroller Response

The nine transactions referenced should have processed using expenditure transfer or journal vouchers, instead of using a summary cost allocation TIN. See [*Correcting Bookkeeping and Cost Allocation Entries \(APS 021\) \(FPP A.013\)*](#).